



**HUMBOLDT STATE UNIVERSITY**

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

# HUMBOLDT STATE UNIVERSITY

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Assets	15
Statements of Revenues, Expenses, and Changes in Net Assets	17
Statements of Cash Flows	19
Notes to Financial Statements	21



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## **Independent Auditors' Report**

Dr. Rollin C. Richmond  
President  
Humboldt State University:

We have audited the accompanying financial statements of Humboldt State University (the University) and its aggregate discretely presented component units as of and for the years ended June 30, 2007 and 2006, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based upon our audits. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

As discussed in note 2 to the financial statements, the financial statements present only the statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and of its aggregate discretely presented component units as of June 30, 2007 and 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

April 9, 2008

# HUMBOLDT STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2007 and 2006

This section of Humboldt State University (the University) annual financial report presents our discussion and analysis of the financial performance of the University for fiscal years ended June 30, 2007 and 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes.

### **Introduction to the Financial Statements**

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. For reporting purposes, the University is considered a special-purpose government engaged in business-type activities, which best represent the activities of the University.

The financial statements include the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. These statements are supported by the notes to the financial statements and this section. All sections must be considered together to obtain a complete understanding of the financial picture of the University.

**Statement of Net Assets** – The statement of net assets includes all assets and liabilities. Assets and liabilities are reported at their book value, on an accrual basis, as of the statement date. It also identifies major categories of restrictions on the net assets of the University.

**Statement of Revenues, Expenses, and Changes in Net Assets** – The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the year on an accrual basis.

**Statement of Cash Flows** – The statement of cash flows presents the inflows and outflows of cash for the year and is summarized by operating, noncapital financing, capital and related financing, and investing activities. The statement is prepared using the direct method of cash flows and, therefore, presents gross rather than net amounts for the year's activities.

### **Analytical Overview**

#### **Summary**

The following discussion highlights management's understanding of the key financial aspects of the University's financial activities as of and for the years ended June 30, 2007 and 2006. Included is a comparative analysis of current year and prior year activities and balances; a discussion of restrictions of University net assets; a discussion of capital assets and long-term debt; and factors impacting future reporting periods.

# HUMBOLDT STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2007 and 2006

The University's condensed summary of net assets as of June 30, 2007, 2006, and 2005 is as follows:

### Condensed Summary of Net Assets

	<b>June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Assets:			
Current assets	\$ 25,777,287	28,036,111	24,545,539
Capital assets	153,051,662	125,707,944	112,258,611
Other noncurrent assets	44,103,515	62,055,001	28,348,431
Total assets	<u>222,932,464</u>	<u>215,799,056</u>	<u>165,152,581</u>
Liabilities:			
Current liabilities	19,137,881	14,140,188	14,494,963
Long-term debt obligations, net of current portion	20,618,165	19,615,387	20,368,414
Other noncurrent liabilities	7,083,245	6,871,051	6,871,922
Total liabilities	<u>46,839,291</u>	<u>40,626,626</u>	<u>41,735,299</u>
Net assets:			
Invested in capital assets, net of related debt	131,754,568	105,277,002	90,345,250
Restricted, nonexpendable	2,335,104	2,286,393	2,317,788
Restricted, expendable	33,592,189	58,814,558	21,685,201
Unrestricted	8,411,312	8,794,477	9,069,043
Total net assets	<u>\$ 176,093,173</u>	<u>175,172,430</u>	<u>123,417,282</u>

*As of June 30, 2007*

#### **Assets**

The \$7,133,408 increase in total assets is primarily due to a \$23,126,973 decrease in state appropriations receivable as a result of lower current year state appropriations, a \$438,047 increase in receivables due from auxiliary organizations, a \$676,528 increase in receivables related to government grants and contracts, an increase of \$239,094 in student receivables, a reduction of \$751,303 of other receivables, a reduction in miscellaneous assets of \$185,349, a decrease in bad debt allowance of \$158,208, and the following change in cash and cash equivalents and capital assets.

Cash and cash equivalents decreased \$3,139,707 and investments increased \$5,720,880 mainly due to changes in cash management processes. During fiscal years 2006-2007, the California State University System entered into new banking arrangements whereby the campus was permitted to invest daily excess cash, and retain only minimal balances with the State Treasury, resulting in the aforementioned changes in cash and investments.

The \$27,343,718 increase in capital assets is due to the capitalization of several major projects, including the Behavioral and Social Science Building of \$10,897,428, the Physical Education Complex of \$13,208,805, the Mai Kai Land Acquisition of \$3,987,646, and numerous smaller projects totaling \$5,227,446, which were offset

## HUMBOLDT STATE UNIVERSITY

### Management's Discussion and Analysis

June 30, 2007 and 2006

by \$5,977,607 in depreciation. Capital expansion is financed through University funds, issuance of debt, and general obligation bonds of the State of California and the California State University System, which are not reflected in the accompanying financial statements.

#### ***Liabilities***

The \$6,212,665 increase in total liabilities from the prior year is primarily due to a \$4,449,553 increase in accounts payable mainly due to the \$4,455,707 capital asset purchases at the end of the year, a \$1,040,222 decrease in long-term debt obligations as a result of current year payments on capital lease obligations and bonds outstanding, a \$2,031,578 increase in capital lease obligations due to an increase of \$2,157,000 for the addition of the CMS new capital lease, a \$282,000 decrease in the self-insurance liability as a result of the University prepaying the estimated amount for fiscal year 2008 as of June 30, 2007, a \$678,291 increase in accrued salaries and benefits, a \$279,778 increase in accrued compensated absences, and \$45,687 increase in other miscellaneous liabilities.

#### ***Net Assets***

A significant portion of net assets at the end of the year is invested in capital assets. The increase in net assets of \$920,743 from the prior year is primarily related to an increase of \$26,477,566 in invested in capital assets and, a decrease of \$25,092,396 in net assets restricted for capital projects due to increases in amounts invested in capital assets. Additionally, there was an increase of \$48,711 in net assets restricted for endowments, an increase of \$324,976 in net assets restricted for scholarships and fellowships and an increase of \$18,923 in net assets restricted for loans. Unrestricted net assets decreased \$383,165.

*As of June 30, 2006*

#### ***Assets***

The \$50,646,475 increase in total assets is primarily due to a \$35,333,267 net increase in accounts receivable which is due to a \$35,923,953 increase in state appropriations receivable as a result of higher current year state appropriations for operations and capital projects, a \$162,432 increase in amounts due from auxiliary organizations, a \$158,824 increase in amounts due from Federal Perkins Loans, a \$526,043 decrease in various other receivables and an increase in bad debt allowance of \$385,899.

Cash, cash equivalents, and investments increased \$2,197,871 due to receipt of Forbes Project administrations fees, utility rebates, and athletic funds now being accounted for by the University. Prepaid and other assets decreased \$333,996 relating to operating expenses.

The \$13,449,333 increase in capital assets is due to the capitalization of several major projects, including the Behavioral and Social Science Building of \$9,223,123, the Physical Education Complex of \$5,092,153, the Science "B" Building of \$1,058,788, and numerous smaller projects totaling \$4,043,722, which were offset by \$5,968,453 in depreciation. Capital expansion is financed through University funds, issuance of debt, and general obligation bonds of the State of California and the California State University System.

#### ***Liabilities***

The \$1,108,673 decrease in total liabilities from the prior year is primarily due to a \$384,982 decrease in accounts payable, an increase in accrued salaries and benefits of \$356,251, an increase in accrued compensated

# HUMBOLDT STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2007 and 2006

absences of \$304,935, an increase in deferred revenue of \$122,067, and a decrease in other liabilities of \$485,224 relating to current year operations. There was a net increase in capital leases of \$348,442, which included a decrease of \$119,558 in current year payments and an increase of \$468,000 for the addition of the CMS capital lease. There was a decrease in long-term debt obligations of \$1,042,309 as a result of current year payments on the GE Capital Financing obligation and bonds outstanding, a decrease of \$258,000 in the self-insurance liability as a result of the University prepaying the estimated amount for fiscal year 2007 as of June 30, 2006, and a \$69,853 decrease in grants refundable relating to Perkins loans.

### *Net Assets*

A significant portion of net assets at the end of the year is invested in capital assets. The increase in net assets of \$51,755,148 from the prior year is primarily related to an increase in capital assets of \$14,931,752 resulting from the completion of capital projects, a decrease of \$31,395 in restricted nonexpendable net assets relating to endowments, an increase of \$37,129,357 of restricted expendable net assets resulting from an increase in state appropriations for capital projects, and a decrease of \$274,566 of unrestricted net assets as a result of operations.

### **Restricted Resources**

Net assets of the University include funds that are restricted by donor or law. The following table summarizes which funds are restricted, the type of restriction, and the amount:

	<b>June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Nonexpendable – endowments	\$ 2,335,104	2,286,393	2,317,788
Expendable:			
Scholarships and fellowships	2,319,610	1,994,634	1,600,836
Loans	704,128	685,205	684,442
Capital projects	30,552,888	55,645,284	18,886,502
Debt service	15,563	489,435	513,421
Total restricted net assets	\$ <u>35,927,293</u>	<u>61,100,951</u>	<u>24,002,989</u>

### *As of June 30, 2007*

Restricted capital projects decreased \$25,092,396 as amounts were invested in capital assets which resulted in a corresponding increase in invested in capital assets, net of related debt.

### *As of June 30, 2006*

The \$37,129,357 increase in restricted net assets – expendable is primarily due to an increase in state appropriations for capital projects to be completed in future years.

# HUMBOLDT STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2007 and 2006

The University's condensed summary of revenues, expenses, and changes in net assets for the years ended June 30, 2007, 2006, and 2005 is as follows:

### Condensed Summary of Revenues, Expenses, and Changes in Net Assets

	Year ended June 30		
	2007	2006	2005
Operating revenues:			
Student tuition and fees, net	\$ 21,178,358	21,838,825	22,956,680
Grants, contracts, and gifts	13,861,139	13,605,499	13,323,526
Sales and services of auxiliary enterprises, net	6,409,214	5,956,177	5,767,625
Other operating revenues	1,654,667	478,463	473,156
	<u>43,103,378</u>	<u>41,878,964</u>	<u>42,520,987</u>
Operating expenses	<u>(122,314,242)</u>	<u>(112,745,819)</u>	<u>(114,445,585)</u>
Operating loss	<u>(79,210,864)</u>	<u>(70,866,855)</u>	<u>(71,924,598)</u>
Nonoperating revenues (expenses):			
State appropriations	72,954,616	68,802,930	66,601,646
Investment income, net	1,729,516	729,344	622,091
Other nonoperating revenues, net	420,688	1,729,659	2,298,497
Total nonoperating revenues	<u>75,104,820</u>	<u>71,261,933</u>	<u>69,522,234</u>
Income (loss) before other additions	<u>(4,106,044)</u>	<u>395,078</u>	<u>(2,402,364)</u>
State appropriations, capital	4,835,338	51,187,000	1,817,000
Grants and gifts, capital	142,738	161,248	98,101
Additions to permanent endowments	48,711	11,822	46,307
Increase (decrease) in net assets	<u>920,743</u>	<u>51,755,148</u>	<u>(440,956)</u>
Beginning net assets	<u>175,172,430</u>	<u>123,417,282</u>	<u>123,858,238</u>
Ending net assets	<u>\$ 176,093,173</u>	<u>175,172,430</u>	<u>123,417,282</u>

### Operating Revenues and Expenses

Operating revenues and expenses come from sources that are connected directly to the University's primary business function. This includes revenues from categories such as tuition and fees, grants, and contracts that will be used for noncapital purposes, and sales and services of auxiliary enterprises. Expenses include categories such as salaries and wages, benefits, supplies and services, student grants and scholarships, and depreciation. In this discussion and analysis, expenses are reported by functional program such as instruction, academic support, and student services.

# HUMBOLDT STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2007 and 2006

### ***Operating Revenues***

#### *Year Ended June 30, 2007*

The University recognized \$43,103,378 in operating revenues during this fiscal year, as compared to \$41,878,964 in the prior year. This comprised 36.13% of total revenues for the year ended June 30, 2007, compared to 36.69% of total revenues for the year ended June 30, 2006.

#### *Year Ended June 30, 2006*

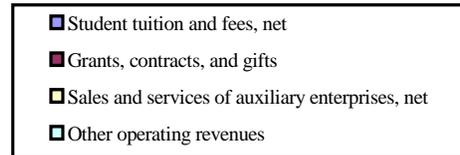
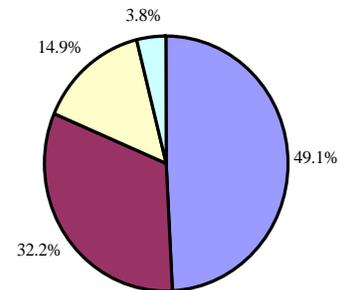
The University recognized \$41,878,964 in operating revenues during this fiscal year, as compared to \$42,520,987 in the prior year. This comprised 36.69% of total revenues for the year ended June 30, 2006, compared to 36.69% of total revenues for the year ended June 30, 2005. Federal and state grants and contracts revenue increased \$281,973 from \$13,323,526 to \$13,605,499 for the fiscal years ended June 30, 2006 and 2005, respectively.

The following charts present the proportional share that each category of operating revenues contributed to the total for fiscal years 2007, 2006, and 2005:

#### **Operating Revenues**

Year ended June 30, 2007

Student tuition and fees, net	\$ 21,178,358	49.1%
Grants, contracts, and gifts	13,861,139	32.2
Sales and services of auxiliary enterprises, net	6,409,214	14.9
Other operating revenues	1,654,667	3.8
Total operating revenues	\$ 43,103,378	100.0%



# HUMBOLDT STATE UNIVERSITY

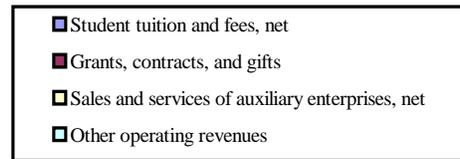
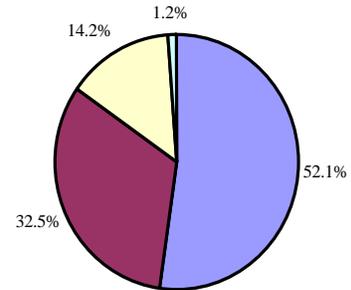
## Management's Discussion and Analysis

June 30, 2007 and 2006

### Operating Revenues

Year ended June 30, 2006

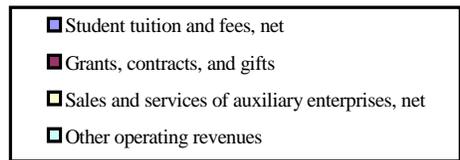
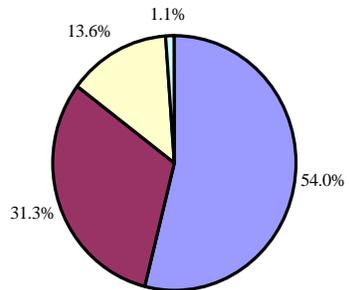
Student tuition and fees, net	\$ 21,838,825	52.1%
Grants, contracts, and gifts	13,605,499	32.5
Sales and services of auxiliary enterprises, net	5,956,177	14.2
Other operating revenues	478,463	1.2
<b>Total operating revenues</b>	<b>\$ 41,878,964</b>	<b>100.0%</b>



### Operating Revenues

Year ended June 30, 2005

Student tuition and fees, net	\$ 22,956,680	54.0%
Grants, contracts, and gifts	13,323,526	31.3
Sales and services of auxiliary enterprises, net	5,767,625	13.6
Other operating revenues	473,156	1.1
<b>Total operating revenues</b>	<b>\$ 42,520,987</b>	<b>100.0%</b>



## Operating Expenses

Year Ended June 30, 2007

The University's operating expenses consist of salaries and fringe benefits of \$85,139,924, supplies and services of \$17,800,041, scholarships and fellowships of \$13,396,670, and depreciation of \$5,977,607. Total operating expenses, excluding depreciation, increased by \$9,559,269, or 8.9%, primarily due to grants and scholarships, academic support, and student services. Salaries and benefits costs increased by \$5,761,044 due to salary rate increases and health and retirement benefit increases for all employees. The University contribution to the California Employees' Retirement System (CalPERS) alone increased by \$1,070,290 or 13%. Student grants and

# HUMBOLDT STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2007 and 2006

scholarships increased by \$355,870 primarily due to increased enrollment generating more eligibility and granting of financial aid.

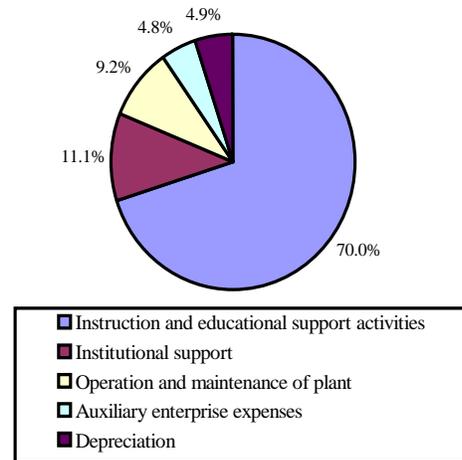
### *Year Ended June 30, 2006*

The University's operating expenses consist of salaries and fringe benefits of \$79,378,880, supplies and services of \$14,357,686, scholarships and fellowships of \$13,040,800, and depreciation of \$5,968,453. Total operating expenses, excluding depreciation, decreased by \$1,568,199, or 1.5%. Salaries and benefits costs increased by \$4,225,376, or 5.6%, due primarily to salary rate increases and health and retirement benefit increases. The University contribution to CalPERS alone decreased by \$198,946, or 2.4%. Student grants and scholarships decreased by \$2,551,101, the reduction is primarily due to reduced enrollment generating less eligibility and granting of financial aid. In anticipation of budget cuts, expenses related to supplies and other services were reduced by \$3,242,474. The decrease in depreciation expense of \$131,567 relates to current year capital asset additions and deletions.

The following charts present the proportional share that each category of operating expenses contributed to the total for fiscal years 2007, 2006, and 2005:

**Operating Expenses**  
Year ended June 30, 2007

Instruction	\$	43,759,312	35.8%
Public service		286,831	0.2
Academic support		13,138,084	10.7
Student services		14,999,849	12.3
Student grants and scholarships		<u>13,396,670</u>	<u>11.0</u>
Total instruction and educational support activities		85,580,746	70.0
Institutional support		13,658,767	11.1
Operation and maintenance of plant		11,235,291	9.2
Auxiliary enterprises expenses		5,861,831	4.8
Depreciation		<u>5,977,607</u>	<u>4.9</u>
Total operating expenses	\$	<u><u>122,314,242</u></u>	<u><u>100.0%</u></u>



# HUMBOLDT STATE UNIVERSITY

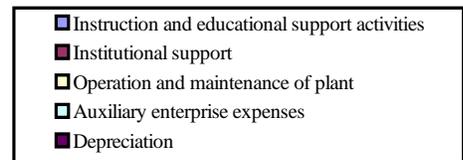
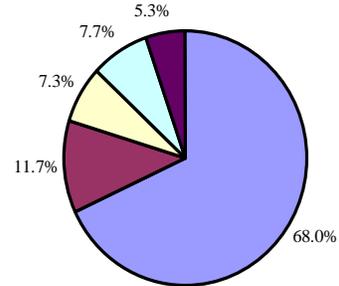
## Management's Discussion and Analysis

June 30, 2007 and 2006

### Operating Expenses

Year ended June 30, 2006

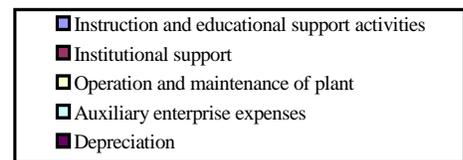
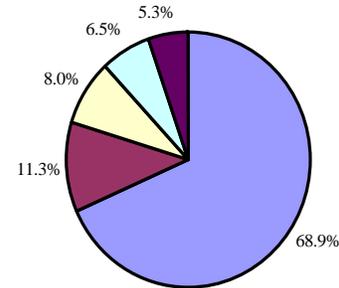
Instruction	\$ 41,217,548	36.6%
Public service	323,374	0.2
Academic support	11,408,431	10.1
Student services	10,725,207	9.5
Student grants and scholarships	13,040,800	11.6
Total instruction and educational support activities	76,715,360	68.0
Institutional support	13,200,405	11.7
Operation and maintenance of plant	8,207,383	7.3
Auxiliary enterprises expenses	8,654,218	7.7
Depreciation	5,968,453	5.3
Total operating expenses	\$ 112,745,819	100.0%



### Operating Expenses

Year ended June 30, 2005

Instruction	\$ 39,671,376	34.7%
Public service	311,433	0.3
Academic support	11,557,490	10.1
Student services	11,719,693	10.2
Student grants and scholarships	15,591,901	13.6
Total instruction and educational support activities	78,851,893	68.9
Institutional support	12,949,604	11.3
Operation and maintenance of plant	9,124,874	8.0
Auxiliary enterprises expenses	7,419,194	6.5
Depreciation	6,100,020	5.3
Total operating expenses	\$ 114,445,585	100.0%



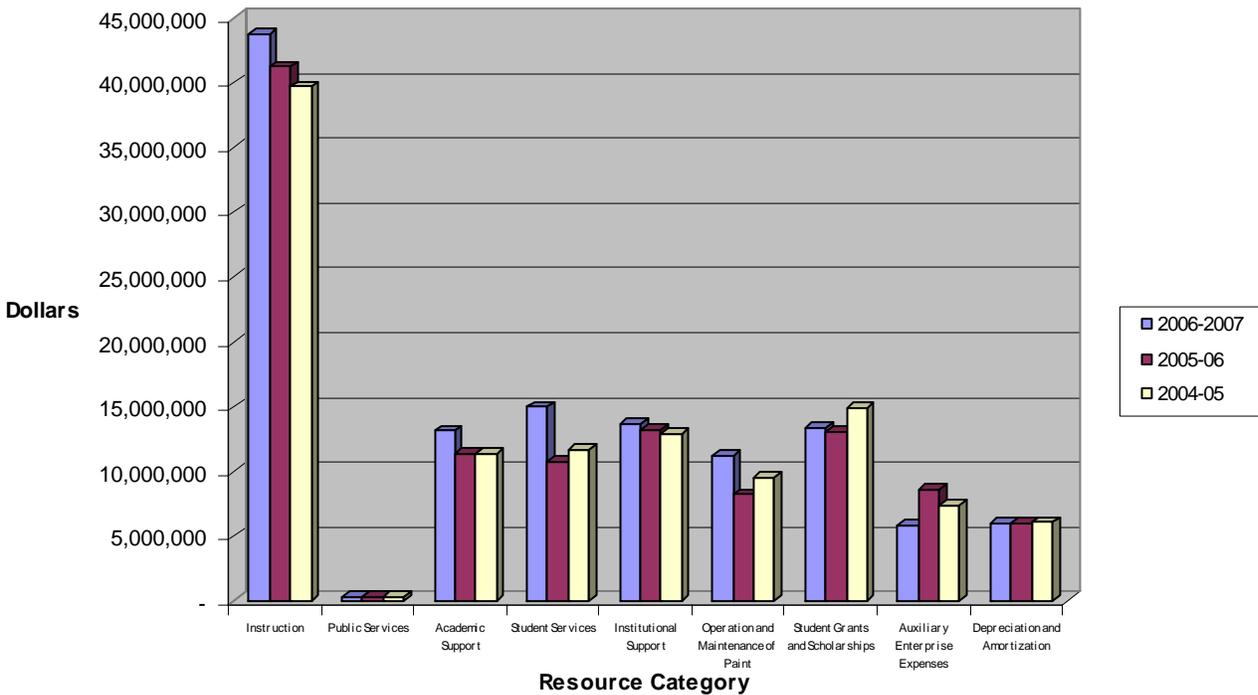
# HUMBOLDT STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2007 and 2006

The following chart presents the distribution of resources in support of the University's mission for fiscal years 2007, 2006, and 2005:

**Comparative Distribution of Resources for fiscal years 2007, 2006, and 2005**



### Nonoperating and Other Revenues (Expenses)

Nonoperating and other revenues (expenses) come from sources that are not part of the University's primary business functions. Included in this classification are categories such as state appropriations, gifts and grants, investment income, and interest on capital-related debt.

#### *Year Ended June 30, 2007*

As the University is part of the California State University System, which is an agency of the State of California, the University's operations are funded primarily from appropriations of state apportionments. Appropriations used for purposes of acquisition of capital assets totaled \$4,835,338 for the fiscal year ended June 30, 2007, down from \$51,187,000 for the fiscal year ended June 30, 2006. General (noncapital) appropriation revenues totaled \$72,954,616, an increase of \$4,151,686 from the prior year.

#### *Year Ended June 30, 2006*

As the University is part of the California State University System, which is an agency of the State of California, the University's operations are funded primarily from appropriations of state apportionments. Appropriations

# HUMBOLDT STATE UNIVERSITY

## Management's Discussion and Analysis

June 30, 2007 and 2006

used for purposes of acquisition of capital assets totaled \$51,187,000 for the fiscal year ended June 30, 2006, up from \$1,817,000 for the fiscal year ended June 30, 2005. General (noncapital) appropriation revenues totaled \$68,802,930, an increase of \$2,201,284 from the prior year.

### Capital Assets and Long-Term Debt Obligations

#### *Capital Assets*

Capital assets, net of accumulated depreciation, are shown below:

	<b>June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Land and land improvements	\$ 3,934,725	3,474,725	3,474,725
Works of art and historical treasures	152,941	152,941	152,941
Buildings and building improvements	61,590,015	54,660,919	58,021,687
Improvements, other than buildings	4,625,211	4,457,764	126,843
Infrastructure	26,444,919	27,186,642	20,033,018
Personal property	4,500,504	5,020,147	5,007,477
Intangible assets	26,952	35,310	43,669
Construction work in progress	51,776,395	30,719,496	25,398,251
Total capital assets, net of accumulated depreciation	\$ <u>153,051,662</u>	<u>125,707,944</u>	<u>112,258,611</u>

#### *As of June 30, 2007*

At June 30, 2007 and 2006, the University had \$153,051,662 and \$125,707,944, respectively, in capital assets, net of accumulated depreciation of \$144,653,324 and \$139,828,609, respectively. Depreciation expense totaled \$5,977,607 and \$5,968,453 for the years ended June 30, 2007 and 2006, respectively.

#### *As of June 30, 2006*

At June 30, 2006 and 2005, the University had \$125,707,944 and \$112,258,611, respectively, in capital assets, net of accumulated depreciation of \$139,828,609 and \$135,117,520, respectively. Depreciation expense totaled \$5,968,453 and \$6,100,202 for the years ended June 30, 2006 and 2005, respectively.

See note 5 of the notes to the financial statements for further information on capital assets.

## HUMBOLDT STATE UNIVERSITY

### Management's Discussion and Analysis

June 30, 2007 and 2006

#### *Long-Term Debt Obligations*

Debt outstanding at June 30, 2007, 2006, and 2005 is summarized below by type of debt instrument:

	<b>June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Systemwide Revenue Bonds	\$ 15,207,295	15,936,185	16,665,279
GE Capital Public Finance, Inc.	3,588,511	3,907,755	4,213,496
Capital leases	3,062,944	1,031,366	682,924
Total	21,858,750	20,875,306	21,561,699
Unamortized bond premium	342,016	369,528	122,551
Unamortized loss on refunding	(420,467)	(455,891)	(201,440)
Total long-term debt	21,780,299	20,788,943	21,482,810
Less current portion	(1,162,134)	(1,173,556)	(1,114,396)
Long-term debt, net of current portion	\$ 20,618,165	19,615,387	20,368,414

The interest rates on outstanding debt range from 2.75% to 5.5%.

#### *Bond Ratings*

Moody's Investors Service currently provides an intrinsic rating for the Systemwide Revenue Bonds at Aa3 and the Student Union Revenue Bonds at A1 (however, these bonds are insured to Aaa). Standard & Poor's currently rates the Systemwide Revenue Bonds at A+ and the Student Union Revenue Bonds at A (however, these bonds are insured to AAA).

See notes 6 through 8 of the notes to the financial statements for further information on long-term debt obligations.

#### *Factors Impacting Future Periods*

The University's final state operating budget for fiscal year 2007-08 is \$99.2 million, an increase of \$3.4 million over fiscal year 2006-07. The increase is budgeted to be used primarily to provide for compensation adjustments, as well as to fund enrollment initiatives, and university advancement efforts.

**HUMBOLDT STATE UNIVERSITY**

Statement of Net Assets

June 30, 2007

Assets	Discretely presented component units		
	University	Auxiliary Organizations	Total
Current assets:			
Cash and cash equivalents	\$ 163,358	1,233,497	1,396,855
Short-term investments	23,616,158	13,216,783	36,832,941
Accounts receivable, net	1,285,197	3,064,884	4,350,081
Pledges receivable, net	31,000	—	31,000
Prepaid expenses and other assets	681,574	1,634,907	2,316,481
Total current assets	25,777,287	19,150,071	44,927,358
Noncurrent assets:			
Restricted cash and cash equivalents	72	—	72
Accounts receivable, net	34,287,652	—	34,287,652
Student loans receivable, net	3,450,570	—	3,450,570
Pledges receivable, net	60,000	—	60,000
Endowment investments	2,335,104	16,461,793	18,796,897
Other long-term investments	3,792,912	5,979,179	9,772,091
Capital assets, net	153,051,662	2,323,838	155,375,500
Other assets	177,205	734,189	911,394
Total noncurrent assets	197,155,177	25,498,999	222,654,176
Total assets	222,932,464	44,649,070	267,581,534
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable	6,691,339	286,008	6,977,347
Accrued salaries and benefits payable	7,181,877	119,761	7,301,638
Accrued compensated absences – current portion	2,619,859	311,859	2,931,718
Deferred revenue	1,041,229	220,454	1,261,683
Capitalized lease obligations – current portion	131,498	—	131,498
Long-term debt obligations – current portion	1,030,636	—	1,030,636
Other liabilities	441,443	2,247,320	2,688,763
Total current liabilities	19,137,881	3,185,402	22,323,283
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	2,328,080	—	2,328,080
Grants refundable	4,546,641	—	4,546,641
Capitalized lease obligations, net of current portion	2,931,446	—	2,931,446
Long-term debt obligations, net of current portion	17,686,719	—	17,686,719
Depository accounts	208,524	—	208,524
Other liabilities	—	6,143,122	6,143,122
Total noncurrent liabilities	27,701,410	6,143,122	33,844,532
Total liabilities	46,839,291	9,328,524	56,167,815
Net assets:			
Invested in capital assets, net of related debt	131,754,568	2,323,838	134,078,406
Restricted for:			
Nonexpendable – endowments	2,335,104	14,384,850	16,719,954
Expendable:			
Scholarships and fellowships	2,319,610	—	2,319,610
Loans	704,128	—	704,128
Capital projects	30,552,888	—	30,552,888
Debt service	15,563	—	15,563
Other	—	14,308,766	14,308,766
Unrestricted	8,411,312	4,303,092	12,714,404
Total net assets	\$ 176,093,173	35,320,546	211,413,719

See accompanying notes to financial statements.

**HUMBOLDT STATE UNIVERSITY**

Statement of Net Assets

June 30, 2006

Assets	Discretely presented component units		Total
	University	Auxiliary Organizations	
Current assets:			
Cash and cash equivalents	\$ 3,226,384	711,626	3,938,010
Short-term investments	21,748,724	11,617,997	33,366,721
Accounts receivable, net	2,248,731	2,847,139	5,095,870
Pledges receivable, net	31,000	—	31,000
Prepaid expenses and other assets	781,272	1,731,706	2,512,978
Total current assets	28,036,111	16,908,468	44,944,579
Noncurrent assets:			
Restricted cash and cash equivalents	76,753	—	76,753
Accounts receivable, net	56,006,933	—	56,006,933
Student loans receivable, net	3,553,745	—	3,553,745
Pledges receivable, net	91,000	—	91,000
Endowment investments	2,274,570	14,173,507	16,448,077
Other long-term investments	—	5,381,930	5,381,930
Capital assets, net	125,707,944	2,333,394	128,041,338
Other assets	52,000	1,033,625	1,085,625
Total noncurrent assets	187,762,945	22,922,456	210,685,401
Total assets	215,799,056	39,830,924	255,629,980
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Accounts payable	2,191,786	229,545	2,421,331
Accrued salaries and benefits payable	6,503,586	138,833	6,642,419
Accrued compensated absences – current portion	2,410,336	290,882	2,701,218
Deferred revenue	1,090,637	253,450	1,344,087
Due to California State University Risk Management Authority	282,000	—	282,000
Capitalized lease obligations – current portion	125,422	—	125,422
Long-term debt obligations – current portion	1,048,134	—	1,048,134
Other liabilities	488,287	1,940,415	2,428,702
Total current liabilities	14,140,188	2,853,125	16,993,313
Noncurrent liabilities:			
Accrued compensated absences, net of current portion	2,257,825	—	2,257,825
Grants refundable	4,511,804	—	4,511,804
Capitalized lease obligations, net of current portion	905,944	—	905,944
Long-term debt obligations, net of current portion	18,709,443	—	18,709,443
Depository accounts	101,422	—	101,422
Other liabilities	—	2,312,732	2,312,732
Total noncurrent liabilities	26,486,438	2,312,732	28,799,170
Total liabilities	40,626,626	5,165,857	45,792,483
Net assets:			
Invested in capital assets, net of related debt	105,277,002	2,333,394	107,610,396
Restricted for:			
Nonexpendable – endowments	2,286,393	13,826,963	16,113,356
Expendable:			
Scholarships and fellowships	1,994,634	—	1,994,634
Loans	685,205	—	685,205
Capital projects	55,645,284	—	55,645,284
Debt service	489,435	—	489,435
Other	—	5,705,035	5,705,035
Unrestricted	8,794,477	12,799,675	21,594,152
Total net assets	\$ 175,172,430	34,665,067	209,837,497

See accompanying notes to financial statements.

**HUMBOLDT STATE UNIVERSITY**

Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2007

	<u>University</u>	<u>Discretely presented component units Auxiliary Organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$6,522,913)	\$ 21,178,358	2,281,285	—	23,459,643
Grants and contracts, noncapital:				
Federal	10,174,879	6,395,947	—	16,570,826
State	3,326,280	3,312,034	—	6,638,314
Local	—	2,045,819	—	2,045,819
Nongovernmental	359,980	—	—	359,980
Sales and services of auxiliary enterprises (net of scholarship allowances of \$2,335,641)	6,409,214	15,506,299	—	21,915,513
Other operating revenues	1,654,667	1,736,933	—	3,391,600
Total operating revenues	<u>43,103,378</u>	<u>31,278,317</u>	<u>—</u>	<u>74,381,695</u>
Expenses:				
Operating expenses:				
Instruction	43,759,312	1,651,914	—	45,411,226
Research	—	6,460,916	—	6,460,916
Public service	286,831	3,492,853	—	3,779,684
Academic support	13,138,084	479,305	—	13,617,389
Student services	14,999,849	1,199,548	—	16,199,397
Institutional support	13,658,767	661,760	—	14,320,527
Operation and maintenance of plant	11,235,291	246,973	(97,302)	11,384,962
Student grants and scholarships	13,396,670	199,335	—	13,596,005
Auxiliary enterprise expenses	5,861,831	16,568,630	—	22,430,461
Depreciation and amortization	5,977,607	281,993	—	6,259,600
Total operating expenses	<u>122,314,242</u>	<u>31,243,227</u>	<u>(97,302)</u>	<u>153,460,167</u>
Operating income (loss)	<u>(79,210,864)</u>	<u>35,090</u>	<u>97,302</u>	<u>(79,078,472)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	72,954,616	—	—	72,954,616
Gifts, noncapital	420,898	890,112	—	1,311,010
Investment income, net	1,729,516	1,479,319	—	3,208,835
Endowment income	121,113	2,225,317	—	2,346,430
Interest on capital-related debt	(1,064,316)	—	—	(1,064,316)
Other nonoperating revenues (expenses), net	942,993	(4,222,605)	—	(3,279,612)
Net nonoperating revenues	<u>75,104,820</u>	<u>372,143</u>	<u>—</u>	<u>75,476,963</u>
Income (loss) before other additions	<u>(4,106,044)</u>	<u>407,233</u>	<u>97,302</u>	<u>(3,601,509)</u>
State appropriations, capital	4,835,338	—	—	4,835,338
Grants and gifts, capital	142,738	—	(97,302)	45,436
Additions to permanent endowments	48,711	248,246	—	296,957
Increase in net assets	<u>920,743</u>	<u>655,479</u>	<u>—</u>	<u>1,576,222</u>
Net assets:				
Net assets at beginning of year	175,172,430	34,665,067	—	209,837,497
Net assets at end of year	\$ <u>176,093,173</u>	<u>35,320,546</u>	<u>—</u>	<u>211,413,719</u>

See accompanying notes to financial statements.

**HUMBOLDT STATE UNIVERSITY**

Statement of Revenues, Expenses, and Changes in Net Assets  
Year ended June 30, 2006

	<u>University</u>	<u>Discretely presented component units Auxiliary Organizations</u>	<u>Eliminations</u>	<u>Total</u>
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$7,409,859)	\$ 21,838,825	2,803,321	—	24,642,146
Grants and contracts, noncapital:				
Federal	9,772,248	4,975,518	—	14,747,766
State	3,280,170	3,442,736	—	6,722,906
Local	553,081	2,093,090	—	2,646,171
Sales and services of auxiliary enterprises (net of scholarship allowances of \$2,000,246)	5,956,177	15,509,522	—	21,465,699
Other operating revenues	478,463	1,294,583	—	1,773,046
Total operating revenues	<u>41,878,964</u>	<u>30,118,770</u>	<u>—</u>	<u>71,997,734</u>
Expenses:				
Operating expenses:				
Instruction	41,217,548	1,782,455	—	43,000,003
Research	—	6,583,722	—	6,583,722
Public service	323,374	1,273,213	—	1,596,587
Academic support	11,408,431	341,578	—	11,750,009
Student services	10,725,207	1,260,298	—	11,985,505
Institutional support	13,200,405	1,358,551	—	14,558,956
Operation and maintenance of plant	8,207,383	12,131	—	8,219,514
Student grants and scholarships	13,040,800	123,999	—	13,164,799
Auxiliary enterprise expenses	8,654,218	16,825,761	—	25,479,979
Depreciation and amortization	5,968,453	331,861	—	6,300,314
Total operating expenses	<u>112,745,819</u>	<u>29,893,569</u>	<u>—</u>	<u>142,639,388</u>
Operating income (loss)	<u>(70,866,855)</u>	<u>225,201</u>	<u>—</u>	<u>(70,641,654)</u>
Nonoperating revenues (expenses):				
State appropriations, noncapital	68,802,930	—	—	68,802,930
Gifts, noncapital	319,912	889,046	—	1,208,958
Investment income, net	685,445	741,971	—	1,427,416
Endowment income	43,899	1,091,710	—	1,135,609
Interest on capital-related debt	(976,244)	—	—	(976,244)
Other nonoperating revenues (expenses), net	2,385,991	(143,646)	—	2,242,345
Net nonoperating revenues	<u>71,261,933</u>	<u>2,579,081</u>	<u>—</u>	<u>73,841,014</u>
Income before other additions	395,078	2,804,282	—	3,199,360
State appropriations, capital	51,187,000	—	—	51,187,000
Grants and gifts, capital	161,248	—	—	161,248
Additions to permanent endowments	11,822	306,974	—	318,796
Increase in net assets	<u>51,755,148</u>	<u>3,111,256</u>	<u>—</u>	<u>54,866,404</u>
Net assets:				
Net assets at beginning of year	123,417,282	31,553,811	—	154,971,093
Net assets at end of year	\$ <u>175,172,430</u>	<u>34,665,067</u>	<u>—</u>	<u>209,837,497</u>

See accompanying notes to financial statements.

**HUMBOLDT STATE UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<b>University</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Student tuition and fees	\$ 21,401,976	22,339,324
Federal grants and contracts	10,514,932	9,272,720
State grants and contracts	3,326,280	3,280,170
Nongovernmental grants and contracts	—	553,081
Payments to suppliers	(18,068,650)	(15,352,441)
Payments to employees	(84,181,856)	(78,769,696)
Payments to students	(13,921,539)	(14,439,497)
Collections of student loans	662,881	1,109,668
Sales and services of auxiliary enterprises	6,429,107	6,017,106
Other receipts	1,019,612	470,180
Net cash used in operating activities	(72,817,257)	(65,519,385)
Cash flows from noncapital financing activities:		
State appropriations	74,326,442	67,531,942
Gifts and grants received for other than capital purposes	500,609	209,735
Federal loan program receipts	24,984,380	25,765,724
Federal loan program disbursements	(24,984,380)	(25,765,724)
Monies received on behalf of others	4,738,071	3,992,079
Monies disbursed on behalf of others	(4,666,714)	(3,983,862)
Other	1,001,944	3,341,319
Net cash provided by noncapital financing activities	75,900,352	71,091,213
Cash flows from capital and related financing activities:		
Proceeds from capital debt	—	6,417,782
State appropriations	26,590,485	16,534,034
Capital grants and gifts	45,436	—
Acquisition of capital assets	(26,803,578)	(18,008,240)
Transfers to escrow agent	—	(6,417,782)
Principal paid on capital debt and leases	(1,173,556)	(1,169,393)
Interest paid on capital debt and leases	(942,032)	(895,980)
Net cash used in capital and related financing activities	(2,283,245)	(3,539,579)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	23,087,413	11,059,991
Purchases of investments	(29,349,826)	(13,759,991)
Investment income received	2,322,856	(408,383)
Net cash used in investing activities	(3,939,557)	(3,108,383)
Net decrease in cash and cash equivalents	(3,139,707)	(1,076,134)
Cash and cash equivalents at beginning of year	3,303,137	4,379,271
Cash and cash equivalents at end of year	\$ 163,430	3,303,137
Summary of cash and cash equivalents at end of year:		
Cash and cash equivalents	\$ 163,358	3,226,384
Restricted cash and cash equivalents	72	76,753
Total cash and cash equivalents at end of year	\$ 163,430	3,303,137

**HUMBOLDT STATE UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<b>University</b>	
	<b>2007</b>	<b>2006</b>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (79,210,864)	(70,866,855)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	5,977,607	5,968,453
Change in assets and liabilities:		
Accounts receivable, net	(362,065)	261,988
Student loans receivable, net	103,175	106,386
Prepaid expenses and other assets	99,698	507,997
Accounts payable	43,846	(1,334,574)
Accrued salaries and benefits	678,291	356,251
Accrued compensated absences	279,778	304,935
Deferred revenue	(49,408)	122,067
Self-insurance claims liability	(282,000)	(310,000)
Depository accounts	107,102	9,365
Other liabilities	(202,417)	(645,398)
Net cash used in operating activities	\$ (72,817,257)	(65,519,385)
Supplemental schedule of noncash transactions:		
Contributed capital assets	\$ 97,302	161,248
Acquisition of capital asset through capital lease	2,157,000	468,000
Acquisition of capital asset through long-term debt obligation	—	949,592
Construction work in progress acquired from the Office of the Chancellor	54,376	4,069
Accrued capital asset costs (purchased but unpaid at year-end)	4,455,707	—
Amortization of bond premium	27,512	25,805

See accompanying notes to financial statements.

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

### (1) Organization

Humboldt State University (the University) was established as a campus of the California State University under the State of California Education Code to offer undergraduate and graduate instruction for professional and occupational goals emphasizing a broad liberal arts education. As one of 23 campuses in the California State University System (the System), the University is included in the financial statements of the System. Responsibility for the University is vested in the Trustees of the System (the Trustees) who, in turn, appoint the Chancellor, the chief executive officer of the System, and the University president, the chief executive officer of the University.

The University provides instruction for baccalaureate and masters' degrees, and certificate programs, and operates various auxiliary enterprises such as student dormitories, student unions, and parking facilities. In addition, the University administers a variety of financial aid programs, which are funded primarily through state and federal programs.

### (2) Summary of Significant Accounting Policies

#### (a) *Financial Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the accompanying financial statements include the accounts of the University and the University's four recognized auxiliary organizations. These auxiliary organizations are legally separate entities that provide services primarily to the University's students and faculty. Separate financial statements are issued for each of the recognized auxiliary organizations and may be obtained from the University.

The discretely presented auxiliary organizations are as follows:

- Humboldt State University, Sponsored Programs Foundation
- Associated Students of Humboldt State University
- Humboldt State University Center Board of Directors
- Humboldt State University, Advancement Foundation

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

Summary information for the discretely presented auxiliary organizations is as follows:

<b>June 30, 2007</b>	<b>Humboldt State University, Sponsored Programs Foundation</b>	<b>Associated Students of Humboldt State University</b>	<b>Humboldt State University, Center Board of Directors</b>	<b>Humboldt State University Advancement Foundation</b>	<b>Total</b>
Current assets	\$ 7,164,799	897,468	10,927,695	160,109	19,150,071
Capital assets, net	1,517,917	12,002	793,919	—	2,323,838
Other noncurrent assets	727,780	17,972	—	22,429,409	23,175,161
<b>Total assets</b>	<b>9,410,496</b>	<b>927,442</b>	<b>11,721,614</b>	<b>22,589,518</b>	<b>44,649,070</b>
Current liabilities	1,600,230	343,958	1,176,998	64,216	3,185,402
Noncurrent liabilities	—	—	6,143,122	—	6,143,122
<b>Total liabilities</b>	<b>1,600,230</b>	<b>343,958</b>	<b>7,320,120</b>	<b>64,216</b>	<b>9,328,524</b>
Invested in capital assets, net of related debt	1,517,917	12,002	793,919	—	2,323,838
Restricted	6,292,349	—	—	22,401,267	28,693,616
Unrestricted	—	571,482	3,607,575	124,035	4,303,092
<b>Total net assets</b>	<b>\$ 7,810,266</b>	<b>583,484</b>	<b>4,401,494</b>	<b>22,525,302</b>	<b>35,320,546</b>

<b>Year ended June 30, 2007</b>	<b>Humboldt State University, Sponsored Programs Foundation</b>	<b>Associated Students of Humboldt State University</b>	<b>Humboldt State University, Center Board of Directors</b>	<b>Humboldt State University Advancement Foundation</b>	<b>Total</b>
Operating revenues:					
Student tuition and fees	\$ 590,850	715,435	975,000	—	2,281,285
Grants and contracts, noncapital	11,753,800	—	—	—	11,753,800
Sales and services of auxiliary enterprises, net	1,128,971	678,989	13,698,339	—	15,506,299
Other	1,736,933	—	—	—	1,736,933
<b>Total operating revenues</b>	<b>15,210,554</b>	<b>1,394,424</b>	<b>14,673,339</b>	<b>—</b>	<b>31,278,317</b>

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

<u>Year ended June 30, 2007</u>	<u>Humboldt State University, Sponsored Programs Foundation</u>	<u>Associated Students of Humboldt State University</u>	<u>Humboldt State University, Center Board of Directors</u>	<u>Humboldt State University Advancement Foundation</u>	<u>Total</u>
Operating expenses:					
Instruction	\$ 1,651,914	—	—	—	1,651,914
Research	6,460,916	—	—	—	6,460,916
Public service	3,492,853	—	—	—	3,492,853
Academic support	479,305	—	—	—	479,305
Student services	1,199,548	—	—	—	1,199,548
Institutional support	661,760	—	—	—	661,760
Operation and maintenance of plant	246,973	—	—	—	246,973
Student grants and scholarships	199,335	—	—	—	199,335
Auxiliary enterprise expenses	1,111,500	1,394,743	14,062,387	—	16,568,630
Depreciation and amortization	47,140	4,628	230,225	—	281,993
Total operating expenses	<u>15,551,244</u>	<u>1,399,371</u>	<u>14,292,612</u>	<u>—</u>	<u>31,243,227</u>
Operating income (loss)	(340,690)	(4,947)	380,727	—	35,090
Net nonoperating revenues (expenses)	<u>629,750</u>	<u>52,108</u>	<u>(2,937,772)</u>	<u>2,628,057</u>	<u>372,143</u>
Income (loss) before other additions	289,060	47,161	(2,557,045)	2,628,057	407,233
Additions to permanent endowments	<u>—</u>	<u>—</u>	<u>—</u>	<u>248,246</u>	<u>248,246</u>
Increase (decrease) in net assets	289,060	47,161	(2,557,045)	2,876,303	655,479
Beginning net assets, July 1, 2006	<u>7,521,206</u>	<u>536,323</u>	<u>6,958,539</u>	<u>19,648,999</u>	<u>34,665,067</u>
Ending net assets, June 30, 2007	<u>\$ 7,810,266</u>	<u>583,484</u>	<u>4,401,494</u>	<u>22,525,302</u>	<u>35,320,546</u>

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

<u>June 30, 2006</u>	<b>Humboldt State University, Sponsored Programs Foundation</b>	<b>Associated Students of Humboldt State University</b>	<b>Humboldt State University Center Board of Directors</b>	<b>Humboldt State University Advancement Foundation</b>	<b>Total</b>
Current assets	\$ 6,495,343	843,240	9,434,837	135,048	16,908,468
Capital assets, net	1,433,209	15,564	884,621	—	2,333,394
Other noncurrent assets	<u>1,027,780</u>	<u>17,060</u>	<u>—</u>	<u>19,544,222</u>	<u>20,589,062</u>
Total assets	<u>8,956,332</u>	<u>875,864</u>	<u>10,319,458</u>	<u>19,679,270</u>	<u>39,830,924</u>
Current liabilities	1,435,126	339,541	1,048,187	30,271	2,853,125
Noncurrent liabilities	<u>—</u>	<u>—</u>	<u>2,312,732</u>	<u>—</u>	<u>2,312,732</u>
Total liabilities	<u>1,435,126</u>	<u>339,541</u>	<u>3,360,919</u>	<u>30,271</u>	<u>5,165,857</u>
Invested in capital assets, net of related debt	1,433,209	15,564	884,621	—	2,333,394
Restricted	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,531,998</u>	<u>19,531,998</u>
Unrestricted	<u>6,087,997</u>	<u>520,759</u>	<u>6,073,918</u>	<u>117,001</u>	<u>12,799,675</u>
Total net assets	\$ <u><u>7,521,206</u></u>	\$ <u><u>536,323</u></u>	\$ <u><u>6,958,539</u></u>	\$ <u><u>19,648,999</u></u>	\$ <u><u>34,665,067</u></u>

<u>Year ended June 30, 2006</u>	<b>Humboldt State University, Sponsored Programs Foundation</b>	<b>Associated Students of Humboldt State University</b>	<b>Humboldt State University Center Board of Directors</b>	<b>Humboldt State University Advancement Foundation</b>	<b>Total</b>
Operating revenues:					
Student tuition and fees	\$ 702,448	993,983	1,106,890	—	2,803,321
Grants and contracts, noncapital	10,511,344	—	—	—	10,511,344
Sales and services of auxiliary enterprises, net	820,441	434,605	14,254,476	—	15,509,522
Other	<u>1,294,583</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,294,583</u>
Total operating revenues	<u>13,328,816</u>	<u>1,428,588</u>	<u>15,361,366</u>	<u>—</u>	<u>30,118,770</u>

## HUMBOLDT STATE UNIVERSITY

### Notes to Financial Statements

June 30, 2007 and 2006

<u>Year ended June 30, 2006</u>	<u>Humboldt State University, Sponsored Programs Foundation</u>	<u>Associated Students of Humboldt State University</u>	<u>Humboldt State University Center Board of Directors</u>	<u>Humboldt State University Advancement Foundation</u>	<u>Total</u>
Operating expenses:					
Instruction	\$ 1,782,455	—	—	—	1,782,455
Research	6,583,722	—	—	—	6,583,722
Public service	1,273,213	—	—	—	1,273,213
Academic support	341,578	—	—	—	341,578
Student services	1,260,298	—	—	—	1,260,298
Institutional support	1,358,551	—	—	—	1,358,551
Operation and maintenance of plant	12,131	—	—	—	12,131
Student grants and scholarships	123,999	—	—	—	123,999
Auxiliary enterprise expenses	903,233	1,372,435	14,550,093	—	16,825,761
Depreciation and amortization	42,425	4,967	284,469	—	331,861
Total operating expenses	<u>13,681,605</u>	<u>1,377,402</u>	<u>14,834,562</u>	<u>—</u>	<u>29,893,569</u>
Operating income (loss)	(352,789)	51,186	526,804	—	225,201
Net nonoperating revenues	<u>579,063</u>	<u>15,044</u>	<u>279,074</u>	<u>1,705,900</u>	<u>2,579,081</u>
Income before other additions	226,274	66,230	805,878	1,705,900	2,804,282
Additions to permanent endowments	<u>—</u>	<u>—</u>	<u>—</u>	<u>306,974</u>	<u>306,974</u>
Increase in net assets	226,274	66,230	805,878	2,012,874	3,111,256
Beginning net assets, July 1, 2005	<u>7,294,932</u>	<u>470,093</u>	<u>6,152,661</u>	<u>17,636,125</u>	<u>31,553,811</u>
Ending net assets, June 30, 2006	<u>\$ 7,521,206</u>	<u>536,323</u>	<u>6,958,539</u>	<u>19,648,999</u>	<u>34,665,067</u>

The auxiliary organizations are presented in the accompanying financial statements as component units due to the nature and significance of their relationship with the University. The relationships are such that exclusion of these organizations from the reporting entity would render the financial statements incomplete, primarily due to the activities that the organizations carry out on behalf of the University, such as research, grant administration, food service, and academic support. The auxiliary organizations are discretely presented to allow the financial statement users to distinguish them from the University.

The financial statements present only the statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows of the University and do not purport to, and do not, present fairly the financial position of the California State University System as of June 30,

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**(b) *Basis of Presentation***

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles, as prescribed by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The financial statements required by GASB Statement Nos. 34 and 35 include a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. As a public institution, the University is considered a special-purpose government under the provisions of GASB Statement No. 35. The University records revenue in part from fees and other charges for services to external users and, accordingly, has chosen to present its financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the University to be reported in a single column in each of the financial statements, accompanied by aggregated financial information for the auxiliary organizations. In accordance with the business-type activities reporting model, the University prepares its statements of cash flows using the direct method.

The auxiliary organizations included in these financial statements apply the accounting and reporting standards promulgated by the Financial Accounting Standards Board (FASB).

**(c) *Election of Applicable FASB Statements***

The University has elected to follow standards of accounting and financial reporting issued by the FASB prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The University also has the option of following subsequent private-sector guidance subject to the same limitation. The University has elected not to adopt the pronouncements issued by the FASB after November 30, 1989.

**(d) *Classification of Current and Noncurrent Assets and Liabilities***

The University considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within 12 months of the statement of net assets date. Liabilities that reasonably can be expected, as part of normal University business operations, to be liquidated within 12 months of the statement of net assets date are considered to be current. All other assets and liabilities are considered to be noncurrent.

**(e) *Cash and Cash Equivalents***

The University considers all highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents. The University considers amounts included in the California State University investment pool to be investments. The statement of cash flows does not include the cash flows of the discretely presented auxiliary organizations.

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

**(f) Investments**

Investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying statements of revenues, expenses, and changes in net assets as investment income, net.

**(g) Capital Assets**

Capital assets are stated at cost or estimated historical cost if purchased, or if donated, at estimated fair value at date of donation. Capital assets, including infrastructure, with a value of \$5,000 or more and with a useful life of one year or more are capitalized. Such cost includes, where appropriate, interest capitalized as part of the cost of constructed capital assets. Title to all assets, whether purchased, constructed, or donated, is held by the State of California. Although title is not with the University for land and buildings, the University has exclusive use of these assets and is responsible for the maintenance of these assets and thus has recorded the cost of these assets on the accompanying financial statements. Capital assets, with the exception of land and land improvements, works of art and historical treasures, and construction work in progress, are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 45 years. Library books, unless considered rare collections, are capitalized and depreciated over a 10-year period. Periodicals and subscriptions are expensed as purchased. Works of art and historical treasures are valued at cost if purchased or the fair market value at the date of donation if contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

Depreciation expense is shown separately in the statements of revenues, expenses, and changes in net assets rather than being allocated among other categories of operating expenses.

**(h) Deferred Revenue**

Deferred revenue consists primarily of fees collected in advance for summer and fall terms and continuing education programs.

**(i) Compensated Absences**

University employees accrue annual leave at rates based on length of service and job classification.

**(j) Grants Refundable**

The University periodically receives contributions from the federal government in support of its operation of the Federal Perkins and Nursing Loan programs, which is approved Title IV loan programs. The federal government has the ability to terminate its support of these programs at any time and to request the University to return those contributions that it has made on a cumulative basis. Accordingly, the federal contributions received and retained by the University at year-end are considered to be liabilities of the University, and are reflected as such in the accompanying statements of net assets.

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

**(k) Net Assets**

The University's net assets are classified into the following net asset categories:

**Invested in capital assets, net of related debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**Restricted – nonexpendable** – Net assets subject to externally imposed conditions that the University retain them in perpetuity. Net assets in this category consist of endowments held by the University or its related auxiliaries.

**Restricted – expendable** – Net assets subject to externally imposed conditions that can be fulfilled by the actions of the University or by the passage of time.

**Unrestricted** – All other categories of net assets. In addition, unrestricted net assets may be designated for use by management of the University or have legislative or bond indenture requirements associated with their use. These requirements limit the area of operations for which expenditures of net assets may be made and require that unrestricted net assets be designated to support future operations in these areas. Campus housing programs are a primary example of operations that have unrestricted net assets with designated uses.

The University has adopted a policy of generally utilizing restricted – expendable funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

**(l) Classification of Revenues and Expenses**

The University considers operating revenues and expenses in the statements of revenues, expenses, and changes in net assets to be those revenues and expenses that result from exchange transactions or from other activities that are connected directly to the University's primary functions. Exchange transactions include charges for services rendered and the acquisition of goods and services. Certain other transactions are reported as nonoperating revenues and expenses or capital contributions in accordance with GASB Statement No. 35. These nonoperating activities include the University's capital appropriations from the State of California, net investment income, gifts, interest expense, and capital contributions.

The State of California appropriates funds to the System on an annual basis. The appropriations are, in turn, allocated among the campuses by the Office of the Chancellor. Appropriations are recognized as revenue when authorization is received, and are reported as either noncapital appropriations when used to support general operations or capital appropriations when used for capital projects.

Student tuition and fee revenue, and sales and services of auxiliary enterprises, including revenues from student housing programs, are presented net of scholarships and fellowships applied to student accounts. Certain other scholarship amounts are paid directly to, or refunded to, the student and are reflected as expenses.

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

**(m) Income Taxes**

The System was established under the State of California Education Code as an agency of the State of California. As a campus of the System, the University is generally not subject to federal or state income taxes. However, the University remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

**(n) Eliminations**

All significant nonexchange transactions between the University and the discretely presented auxiliary organizations have been eliminated from the total column and are separately presented in the eliminations column in the accompanying statements of revenues, expenses, and changes in net assets.

**(o) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(3) Cash and Cash Equivalents and Investments**

The University's cash and cash equivalents and investments as of June 30, 2007 and 2006 are classified in the accompanying statements of net assets as follows:

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 163,358	3,226,384
Restricted cash and cash equivalents	72	76,753
Total cash and cash equivalents	163,430	3,303,137
Short-term investments	23,616,158	21,748,724
Endowment investments	2,335,104	2,274,570
Other long-term investments	3,792,912	—
Total investments	29,744,174	24,023,294
Total cash and cash equivalents and investments	\$ 29,907,604	27,326,431

**(a) Cash and Cash Equivalents**

At June 30, 2007 and 2006, cash and cash equivalents consisted of demand deposits held at the State Treasury and petty cash. Total cash and cash equivalents of \$163,430 and \$3,303,137 had a

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

corresponding carrying value balance with the State Treasury of \$202,409 and \$3,949,737 at June 30, 2007 and 2006, respectively. The differences related primarily to deposits in transit and outstanding checks.

### **Custodial Credit Risk for Deposits**

Custodial credit risk for deposits is the risk that the University will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and Education Code do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the provision that a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. This risk is mitigated in that the University's deposits are maintained at financial institutions that are fully insured or collateralized as required by state law.

### **(b) Investments**

At June 30, 2007 and 2006, the University's investment portfolio consists primarily of investments held in the California State University Investment Pool, an internal investment pool, as well as interest-bearing accounts held in the State Treasury. For the California State University Investment Pool, separate accounting is maintained as to the amounts allocable to the various funds and programs.

### **Investment Policy**

State law and regulations require that surplus monies of the University must be invested. The primary objective of the University's investment policy is to safeguard the principal. The secondary objective is to meet the liquidity needs of the University. The third objective is to return an acceptable yield. The University's investment policy authorizes funds held in local trust accounts under Education Code Sections 89721 and 89724 to be invested in any of the securities authorized by Government Code Section 6430 and Education Code Section 9724, subject to certain limitations. In general, the University's investment policy permits investments in obligations of the federal and California state governments, certificates of deposit, and certain other investment instruments.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the University manages its exposure to interest rate risk is by purchasing a combination of short-term and mid-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or nearing maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The University monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The weighted average maturity of the University's investment portfolio for each investment type as of June 30, 2007 and 2006 is presented below.

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2007:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds \$	8,848	0.01	\$ —	—	—	8,848
Certificates of deposit	7,061,706	0.38	—	5,179,628	1,882,078	—
Commercial paper	6,934,321	0.01	—	—	6,934,321	—
Mortgage-backed securities	29,200	15.56	29,200	—	—	—
Corporate and fixed income securities	10,428,192	1.45	1,074,179	4,408,673	4,945,340	—
State of California Surplus Money Investment Fund	5,281,907	0.48	—	—	—	5,281,907
Total	\$ <u>29,744,174</u>		\$ <u>1,103,379</u>	<u>9,588,301</u>	<u>13,761,739</u>	<u>5,290,755</u>

The following table presents the fair value, weighted average maturity, and actual rating by investment type of the University's investment portfolio as of June 30, 2006:

Investment type	Fair value	Weighted average maturity (in years)	Rating as of year-end			
			AAA	Aa	A	Not rated
Money market mutual funds \$	427,062	0.01	\$ —	—	—	427,062
Certificates of deposit	4,071,015	1.41	—	1,526,494	2,544,521	—
Commercial paper	1,660,700	0.01	—	—	—	1,660,700
U.S. agency securities	1,205,653	0.5	1,205,653	—	—	—
Mortgage-backed securities	74,789	20.87	74,789	—	—	—
Corporate and fixed income securities	8,172,983	1.72	373,699	2,276,111	5,523,173	—
State of California Surplus Money Investment Fund	8,411,092	0.42	—	—	—	8,411,092
Total	\$ <u>24,023,294</u>		\$ <u>1,654,141</u>	<u>3,802,605</u>	<u>8,067,694</u>	<u>10,498,854</u>

### Concentration of Credit Risk

The University's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2007 and 2006, there were no investments representing 5% or more of the University's investment portfolio.

For information regarding the investments of the individual discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

**(4) Accounts Receivable**

Accounts receivable at June 30 consisted of the following:

	<b>2007</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State appropriations	\$ 6,976	33,906,908	33,913,884
Auxiliary organizations	684,254	—	684,254
Student accounts	840,880	—	840,880
Government grants and contracts	340,234	367,957	708,191
Other	140,895	12,787	153,682
	<u>2,013,239</u>	<u>34,287,652</u>	<u>36,300,891</u>
Less allowance for doubtful accounts	(728,042)	—	(728,042)
Total	<u>\$ 1,285,197</u>	<u>34,287,652</u>	<u>35,572,849</u>

	<b>2006</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State appropriations	\$ 1,378,802	55,662,055	57,040,857
Auxiliary organizations	246,207	—	246,207
Student accounts	601,786	—	601,786
Government grants and contracts	31,663	—	31,663
Other	560,107	344,878	904,985
	<u>2,818,565</u>	<u>56,006,933</u>	<u>58,825,498</u>
Less allowance for doubtful accounts	(569,834)	—	(569,834)
Total	<u>\$ 2,248,731</u>	<u>56,006,933</u>	<u>58,255,664</u>

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2007 consisted of the following:

	<b>Balance, June 30, 2006</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance, June 30, 2007</b>
Nondepreciable capital assets:					
Land and land improvements	\$ 3,474,725	460,000	—	—	3,934,725
Works of art and historical treasures	152,941	—	—	—	152,941
Construction work in progress	30,719,496	31,991,502	—	(10,934,603)	51,776,395
<b>Total nondepreciable capital assets</b>	<b>34,347,162</b>	<b>32,451,502</b>	<b>—</b>	<b>(10,934,603)</b>	<b>55,864,061</b>
Depreciable capital assets:					
Buildings and building improvements	160,527,428	—	—	10,456,495	170,983,923
Improvements, other than buildings	8,147,491	—	—	438,419	8,585,910
Infrastructure	35,813,222	—	—	18,123	35,831,345
Personal property:					
Equipment	12,962,666	841,843	(784,232)	35,690	13,055,967
Library books and materials	13,617,940	99,718	(454,522)	—	13,263,136
Intangible assets	120,644	—	—	—	120,644
<b>Total depreciable capital assets</b>	<b>231,189,391</b>	<b>941,561</b>	<b>(1,238,754)</b>	<b>10,948,727</b>	<b>241,840,925</b>
<b>Total cost</b>	<b>265,536,553</b>	<b>33,393,063</b>	<b>(1,238,754)</b>	<b>14,124</b>	<b>297,704,986</b>
Less accumulated depreciation:					
Buildings and building improvements	(105,866,509)	(3,527,399)	—	—	(109,393,908)
Improvements, other than buildings	(3,689,727)	(270,972)	—	—	(3,960,699)
Infrastructure	(8,626,580)	(759,846)	—	—	(9,386,426)
Personal property:					
Equipment	(9,440,832)	(1,055,765)	712,494	(14,124)	(9,798,227)
Library books and materials	(12,119,627)	(355,267)	454,522	—	(12,020,372)
Intangible assets	(85,334)	(8,358)	—	—	(93,692)
<b>Total accumulated depreciation</b>	<b>(139,828,609)</b>	<b>(5,977,607)</b>	<b>1,167,016</b>	<b>(14,124)</b>	<b>(144,653,324)</b>
<b>Net capital assets</b>	<b>\$ 125,707,944</b>	<b>27,415,456</b>	<b>(71,738)</b>	<b>—</b>	<b>153,051,662</b>

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

Capital assets activity for the year ended June 30, 2006 consisted of the following:

	<b>Balance, June 30, 2005</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance, June 30, 2006</b>
Nondepreciable capital assets:					
Land and land improvements	\$ 3,474,725	—	—	—	3,474,725
Works of art and historical treasures	152,941	—	—	—	152,941
Construction work in progress	<u>25,398,251</u>	<u>18,224,104</u>	<u>(90,000)</u>	<u>(12,812,859)</u>	<u>30,719,496</u>
Total nondepreciable capital assets	<u>29,025,917</u>	<u>18,224,104</u>	<u>(90,000)</u>	<u>(12,812,859)</u>	<u>34,347,162</u>
Depreciable capital assets:					
Buildings and building improvements	160,136,994	—	(11,001)	401,435	160,527,428
Improvements, other than buildings	3,584,691	—	—	4,562,800	8,147,491
Infrastructure	27,964,598	—	—	7,848,624	35,813,222
Personal property:					
Equipment	12,825,034	1,200,666	(1,079,308)	16,274	12,962,666
Library books and materials	13,718,253	166,379	(266,692)	—	13,617,940
Intangible assets	<u>120,644</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>120,644</u>
Total depreciable capital assets	<u>218,350,214</u>	<u>1,367,045</u>	<u>(1,357,001)</u>	<u>12,829,133</u>	<u>231,189,391</u>
Total cost	<u>247,376,131</u>	<u>19,591,149</u>	<u>(1,447,001)</u>	<u>16,274</u>	<u>265,536,553</u>
Less accumulated depreciation:					
Buildings and building improvements	(102,115,307)	(3,751,202)	—	—	(105,866,509)
Improvements, other than buildings	(3,460,876)	(228,851)	—	—	(3,689,727)
Infrastructure	(7,962,730)	(663,850)	—	—	(8,626,580)
Personal property:					
Equipment	(9,503,442)	(928,062)	1,006,946	(16,274)	(9,440,832)
Library books and materials	(11,998,190)	(388,129)	266,692	—	(12,119,627)
Intangible assets	<u>(76,975)</u>	<u>(8,359)</u>	<u>—</u>	<u>—</u>	<u>(85,334)</u>
Total accumulated depreciation	<u>(135,117,520)</u>	<u>(5,968,453)</u>	<u>1,273,638</u>	<u>(16,274)</u>	<u>(139,828,609)</u>
Net capital assets	\$ <u>112,258,611</u>	<u>13,622,696</u>	<u>(173,363)</u>	<u>—</u>	<u>125,707,944</u>

For information regarding the capital assets of the individual discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

**(6) Lease Obligations**

The University is obligated under various capital and operating leases and installment purchase agreements for the acquisition of equipment and facility rentals.

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

Capital leases consist primarily of leases of certain facilities and office equipment. Total capital assets related to capital leases have a carrying value of \$979,366 for 2007 and 2006. Substantially all of these assets are pledged as security for the related leases. The leases bear interest at rates ranging from 4.4% to 5.0% and have terms expiring in various years through 2016.

Operating leases consist primarily of leases for the use of real property and have terms expiring in various years through fiscal year 2011. The leases can be canceled if the state does not provide adequate funding.

Future minimum lease payments under capital and operating leases having remaining terms in excess of one year are as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
Year ending June 30:		
2008	\$ 153,001	114,407
2009	374,762	21,244
2010	593,302	21,244
2011	453,960	19,881
2012	451,701	—
2013 – 2017	<u>1,535,017</u>	<u>—</u>
Total minimum lease payments	3,561,743	\$ <u><u>176,776</u></u>
Less amount representing interest	<u>(498,799)</u>	
Present value of future minimum lease payments	3,062,944	
Less current portion	<u>(131,498)</u>	
Capital lease obligations, net of current portion	\$ <u><u>2,931,446</u></u>	

Rent expense under operating leases for the years ended June 30, 2007 and 2006 totaled \$125,561 and \$136,112, respectively.

Lease financing is provided to the System for the construction of various system and campus facilities through its participation with the State of California in the State Public Works Board Lease Revenue Bond Program. Certain capital assets recorded by the University may have been financed under these arrangements. However, since the obligation for the repayment of this financing rests with the System and the proceeds of such financing are not readily identifiable with a campus or project, a substantial portion of such financing is not allocated to the individual campuses of the System. Unallocated Lease Revenue Bonds outstanding for the System as of June 30, 2007 and 2006 totaled \$570,858,000 and \$554,748,000, respectively.

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

### (7) Long-Term Debt Obligations

#### (a) *General Obligation Bond Program*

The General Obligation Bond program of the State of California has provided capital outlay funds for the three segments of California Higher Education through voter-approved bonds. Each of the approved bond programs provides a pool of available funds which is allocated on a project-by-project basis among the University of California, the California State University System, and the Community Colleges. Financing provided to the University through State of California General Obligation Bonds is not allocated to the System by the State of California. This debt remains the obligation of the state and is funded by state tax revenues. Accordingly, such debt is not reflected in the accompanying financial statements. Total General Obligation Bond debt carried by the state related to System projects is approximately \$1,393,141,000 and \$1,277,682,000 as of June 30, 2007 and 2006, respectively.

#### (b) *Revenue Bond Programs*

The Revenue Bond Act of 1947 provides the Trustees with the ability to issue revenue bonds to fund five specific self-supporting programs and the health facilities program. The statute has enabled the Trustees to finance student housing, student unions, parking facilities, health facilities, continuing education facilities, and auxiliary organization facilities.

The housing program provides on-campus housing primarily for students. Housing is a self-supporting program deriving its revenues from fees collected for the use of the residence facilities. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The student union program provides facilities and programs aimed at creating and enhancing learning experiences outside the classroom by promoting interaction among students, faculty, and staff. The student union program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for maintenance and repair, and improvements to facilities, and interest and principal payments on outstanding bonds. After payment of all authorized charges, the balances of these funds are available for transfer to the campus auxiliary organization that has contracted with the University to operate the facility. The operating entity may derive additional revenue from facility subrental, recreational and commercial activities, and interest income.

The parking program provides parking facilities. The parking program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for construction, repair and maintenance, and principal and interest payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The health facilities program provides facilities on campus in which to provide health services to students. The health facilities program derives its revenues primarily from student tuition and interest income. Funds are used for current operating expenses, maintenance and repair, improvements to

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The continuing education program provides nonstate-supported courses to students. The continuing education program is self-supporting and derives its revenues primarily from student fees and interest income. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The auxiliary organization program provides for certain additional facilities on campus for the benefit of students and staff. The auxiliary organization program derives its revenues primarily from lease income received by the campus from the auxiliary organization using the facility. Funds are used for current operating expenses, maintenance and repair, improvements to facilities, and interest and principal payments on outstanding bonds. Available balances after payment of all operating expenses and required charges remain available for future program expenses and capital needs.

The Systemwide Revenue Bond program, formerly the Housing Revenue Bond program, was approved by the Trustees in fiscal year 2003. This program provides funding for various construction projects, including student residence and dining halls facilities, continuing education buildings, student unions, parking facilities, health facilities, and auxiliary organization facilities at designated campuses within the System as specified by the individual bond documents. It is designed to provide lower cost debt and greater flexibility to finance revenue bond projects of the System. Rather than relying on specific pledged revenues to support specific debt obligations, this program pools several sources of revenue as the pledge for the related revenue producing projects. The System's total outstanding balance of revenue bond indebtedness under the Systemwide Revenue Bond program was \$2,302,428,000 and \$1,982,433,000 at June 30, 2007 and 2006, respectively. The University's portion of the total outstanding balance under this program was \$15,207,294 and \$15,936,185 at June 30, 2007 and 2006, respectively.

Senior to the Systemwide Revenue Bonds are the Student Union Revenue Bonds Series A, B, and C. At June 30, 2007 and 2006, the System's outstanding balance for these senior bonds totaled \$68,550,000 and \$70,820,000, respectively. The University had no outstanding balances for these senior bonds of June 30, 2007 and 2006.

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

Long-term debt obligations of the University as of June 30 consist of the following:

Description	Interest rate	Fiscal year maturity date	Original issue amount	Amount outstanding at June 30	
				2007	2006
Systemwide Revenue Bonds:					
Student Union 2002A	4.00% – 5.5%	2030/31	\$ 3,490,000	3,200,000	3,265,000
Student Union 2004A	3.00% – 5.25%	2034/35	3,845,000	3,715,000	3,780,000
Housing Series B	3.00%	2007/08	1,718,059	87,294	231,185
Housing Series 2005A	2.75% – 5.00%	2016/17	2,985,000	2,580,000	2,790,000
Housing Series 2005B	5.00%	2021/22	6,145,000	5,625,000	5,870,000
Other:					
GE Capital Public Finance, Inc.	4.40%	2015/16	4,545,167	3,588,512	3,907,755
Total				18,795,806	19,843,940
Unamortized bond premium				342,016	369,528
Unamortized loss on refunding				(420,467)	(455,891)
Total long-term debt				18,717,355	19,757,577
Less current portion				(1,030,636)	(1,048,134)
Long-term debt, net of current portion				\$ 17,686,719	18,709,443

Long-term debt principal obligations and related interest mature in the following fiscal years:

	Principal	Interest	Total
Year ending June 30:			
2008	\$ 1,030,636	876,615	1,907,251
2009	973,064	836,077	1,809,141
2010	1,028,437	794,704	1,823,141
2011	1,079,489	747,909	1,827,398
2012	2,879,180	898,051	3,777,231
2013 – 2017	4,230,000	2,441,179	6,671,179
2018 – 2022	3,585,000	1,458,389	5,043,389
2023 – 2027	1,565,000	805,712	2,370,712
2028 – 2032	1,745,000	375,125	2,120,125
2033 – 2035	680,000	52,250	732,250
	\$ 18,795,806	9,286,011	28,081,817

Long-term debt obligations of the discretely presented auxiliary organizations have been issued to purchase or construct facilities for University-related uses. For information regarding the long-term debt obligations of the individual discretely presented auxiliary organizations, please refer to the separately issued auxiliary organizations' reports.

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

**(c) Prior Years' Refundings**

In prior years, the University defeased certain Systemwide Housing System Revenue Bonds Series AV (refunded bonds) by placing the proceeds from the issuance of the Systemwide Revenue Bonds Series 2005B refunding bonds in an irrevocable trust with the State Treasurer to provide for all future debt service payments on the refunded bonds. The proceeds from the Series 2005B refunding bonds were used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are considered sufficient to fully service the defeased debt until the debt is called or matures. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. The amount of prior years' defeased bonds outstanding as of June 30, 2007 totaled \$2,725,000.

**(8) Long-Term Liabilities Activity**

Long-term liabilities activity for the year ended June 30, 2007 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 4,668,161	279,778	—	4,947,939	2,619,859
Capitalized lease obligations (note 6)	1,031,366	2,157,000	(125,422)	3,062,944	131,498
Long-term debt obligations (note 7):					
Systemwide Revenue Bonds	15,936,185	—	(728,890)	15,207,295	697,294
Other	3,907,755	—	(319,244)	3,588,511	333,342
Total	19,843,940	—	(1,048,134)	18,795,806	1,030,636
Unamortized bond premium	369,528	—	(27,512)	342,016	—
Unamortized loss on refunding	(455,891)	—	35,424	(420,467)	—
Total long-term debt obligations	19,757,577	—	(1,040,222)	18,717,355	1,030,636
Total long-term liabilities	\$ <u>25,457,104</u>	<u>2,436,778</u>	<u>(1,165,644)</u>	<u>26,728,238</u>	<u>3,781,993</u>

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

Long-term liabilities activity for the year ended June 30, 2006 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Current portion</u>
Accrued compensated absences	\$ 4,363,226	2,715,271	(2,410,336)	4,668,161	2,410,336
Capitalized lease obligations (note 6)	682,924	468,000	(119,558)	1,031,366	125,422
Long-term debt obligations (note 7):					
Systemwide Revenue Bonds	16,665,279	6,145,000	(6,874,095)	15,936,184	728,891
Other	4,213,496	—	(305,740)	3,907,756	319,243
Total	<u>20,878,775</u>	<u>6,145,000</u>	<u>(7,179,835)</u>	<u>19,843,940</u>	<u>1,048,134</u>
Unamortized bond premium	122,551	272,782	(25,805)	369,528	—
Unamortized loss on refunding	<u>(201,440)</u>	<u>(287,782)</u>	<u>33,331</u>	<u>(455,891)</u>	<u>—</u>
Total long-term debt obligations	<u>20,799,886</u>	<u>6,130,000</u>	<u>(7,172,309)</u>	<u>19,757,577</u>	<u>1,048,134</u>
Total long-term liabilities	<u>\$ 25,846,036</u>	<u>9,313,271</u>	<u>(9,702,203)</u>	<u>25,457,104</u>	<u>3,583,892</u>

**(9) Pension Plan and Postretirement Benefits**

**(a) Plan Description**

The University, as an agency of the state of California, contributes to the California Public Employees' Retirement System (CalPERS). The state's plan with CalPERS is an agent multiple-employer defined benefit retirement plan and CalPERS functions as an investment and administrative agent for its members. For the University, the plan acts as a cost-sharing multiple-employer defined benefit pension plan which provides a defined benefit pension and postretirement program for substantially all eligible University employees.

CalPERS provides benefits based on members' years of service, age, and final compensation. In addition, benefits are provided for disability and death and payments to survivors or beneficiaries of eligible members. Membership is mandatory for those University employees employed full-time for a period of six months or part-time for a period of one year in duration. Members are eligible to retire at the age specified in their benefit formulas. University members become fully vested in their retirement benefits after five years of credited service.

All University retirees that retire within 120 days of their separation from employment have been eligible for enrollment in a CalPERS medical plan on their date of separation; and receive a retirement allowance from CalPERS, and eligible for retirement health benefits through CalPERS which include medical and dental coverage. The retiree's family members can also be covered by the plan and eligible dependents include his or her spouse, domestic partner, children under age 23 and never married, and disabled children over age 23. The monthly out-of-pocket enrollment cost to the retiree for medical coverage will depend on which plan and the level of coverage the retiree chooses.

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

The University currently pays the full cost of the basic level dental coverage for eligible retirees and their eligible dependents.

CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the California Public Employees' Retirement System Executive Office – 400 P Street – Sacramento, California 95814.

**(b) Funding Policy**

The benefit structure for state employees (including the University) is defined by statute. CalPERS uses contributions of the employer and the employee as well as income from investments to pay for employee retirement benefits. Employee and employer contributions are a percentage of applicable employee compensation. The employee contribution is 5% of salary for Miscellaneous Tier 1 members as defined by the Plan and 8% for Peace Officer/Firefighter members (Public Safety Management and Firefighters only) less an exclusion allowance for coordination with Social Security. For eligible University Public Safety employees, the University pays for both the employer and employee contributions. The University is required to contribute at an actuarially determined rate; the current rate is approximately 16.997% of annual covered payroll. The contribution requirements of the plan members are established and may be amended by CalPERS.

The University's contributions to CalPERS for the most recent three fiscal years were equal to the required contributions and were as follows:

2005	\$	8,383,281
2006		8,184,335
2007		9,254,625

**(c) Faculty Early Retirement Program**

During fiscal year 2004, the System implemented the Faculty Early Retirement Program, which was authorized by Executive Order S-8-04 issued by the Governor on May 6, 2004. In order to enroll in the program, participants must have met the CalPERS retirement eligibility requirements of age 50 or more on the date of retirement and have had five years or more of service credit. Eligible employees who elected to participate in this program received two additional years of service credit in their retirement income calculation if their (1) separation date was no earlier than May 5, 2004, and no later than July 27, 2004, and (2) CalPERS retirement date was no earlier than May 6, 2004, and no later than July 28, 2004. In return, the System was required to contribute to CalPERS an amount representing the actuarial equivalent of the value of this benefit. The early retirement benefit was not dependent upon future services and, therefore, was already earned as of June 30, 2004 by those who have elected to participate in the program. The University's total estimated liability under the program is \$688,453, of which \$164,642 and \$151,887 was paid during fiscal years 2007 and 2006, respectively. As of June 30, 2007 and 2006, the University's remaining liability of \$178,468 and \$343,110, respectively, has been recorded as a component of accrued salaries and benefits payable in the accompanying statements of net assets.

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

### (10) Self-Insurance Program

The System and certain auxiliary organizations have established a public entity risk pool, California State University Risk Management Authority (CSURMA), a blended component unit of the System, to manage centrally workers' compensation, industrial and nonindustrial disability, and general organizational risks. The System's self-insurance claims liability includes estimated amounts that will be required for future payments of claims that have been reported and claims related to events that have occurred but not been reported. The estimated liability is actuarially determined using individual case basis valuations and statistical analyses. Although considerable variability is inherent in such estimates, management believes that the liability is a reasonable estimate at June 30, 2007 and 2006.

Changes in the System's self-insurance claims liability for the two years ended June 30, 2007 are as follows:

Liability at June 30, 2004	\$ 118,711,000
Incurred claims and changes in estimates	33,419,000
Claim payments	<u>(34,491,000)</u>
Liability at June 30, 2005	117,639,000
Incurred claims and changes in estimates	23,938,000
Claim payments	<u>(29,201,000)</u>
Liability at June 30, 2006	112,376,000
Incurred claims and changes in estimates	35,794,000
Claim payments	<u>(39,978,000)</u>
Liability at June 30, 2007	108,192,000
Less current portion	<u>(27,250,000)</u>
Long-term liability at June 30, 2007, net of current portion	<u>\$ 80,942,000</u>

The System maintains excess general liability insurance coverage provided by Schools Excess Liability Fund (SELF), a Joint Powers Authority, with coverage for individual claims above \$1,000,000 and up to \$49,000,000 per occurrence. The System purchases excess workers' compensation insurance provided by the Insurance Corporation of Hanover (ICH) to limits of \$50,000,000 in excess of \$2,500,000 self-insured retention and coverage from American Home Assurance Company (AIG) for limits of \$50,000,000 in excess of \$50,000,000. There have been no settlements in the most recent three fiscal years that have exceeded insurance limits. Although the System maintains excess policies with SELF, ICH, AIG, and other insurers, the ultimate responsibility for payment of claims resides with the System.

Premiums charged to each of the pool participants are based on historical trend information and the pool participant's estimated share of the CSURMA self-insurance claims liabilities. The University's allocation of the System's total self-insurance claims liability as of June 30, 2007 and 2006 was approximately 2.0% for each, or \$2,531,000 and \$2,760,000, respectively. This allocation reflects the University's estimated share of the ultimate cost of settling claims relating to events that have occurred on or before June 30, 2007

# HUMBOLDT STATE UNIVERSITY

## Notes to Financial Statements

June 30, 2007 and 2006

and 2006. Any future fluctuations in the University's estimated share of the self-insurance claims liability will be reflected in subsequent premiums charged to the University for its participation in CSURMA.

The University's payable due to CSURMA totaling \$0 and \$282,000 at June 30, 2007 and 2006, respectively, is recorded as a current liability in the accompanying net assets.

### (11) Commitments and Contingencies

Federal grant programs are subject to review by the grantor agencies, which could result in requests for reimbursement to grantor agencies for disallowed expenditures. Management believes that it has adhered to the terms of its grants and that any disallowed expenditures resulting from such review would not have a material effect on the financial position of the University.

Contractual commitments for construction projects unexpended as of June 30, 2007 and 2006 totaled \$24,873,699 and \$37,385,708, respectively. These expenditures will be funded primarily from state capital appropriations.

The University is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University's financial position, changes in net assets, or liquidity.

### (12) Classification of Operating Expenses

The University has elected to report operating expenses by functional classification in the statements of revenues, expenses, and changes in net assets, but to provide the natural classification of those expenses as an additional disclosure. For the years ended June 30, 2007 and 2006, operating expenses by natural classification consisted of the following:

<u>2007</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 30,902,843	10,103,149	—	2,753,320	—	43,759,312
Public service	224,407	50,448	—	11,976	—	286,831
Academic support	8,044,301	3,107,760	—	1,986,023	—	13,138,084
Student services	8,074,879	3,041,538	—	3,883,432	—	14,999,849
Institutional support	7,645,884	3,087,378	—	2,925,505	—	13,658,767
Operation and maintenance of plant	5,399,581	2,414,999	—	3,420,711	—	11,235,291
Student grants and scholarships	—	—	13,396,670	—	—	13,396,670
Auxiliary enterprise expenses	2,276,939	765,818	—	2,819,074	—	5,861,831
Depreciation	—	—	—	—	5,977,607	5,977,607
Total	<u>\$ 62,568,834</u>	<u>22,571,090</u>	<u>13,396,670</u>	<u>17,800,041</u>	<u>5,977,607</u>	<u>122,314,242</u>

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

<u>2006</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships and fellowships</u>	<u>Supplies and other services</u>	<u>Depreciation</u>	<u>Total</u>
Functional classification:						
Instruction	\$ 29,562,565	8,966,291	—	2,688,692	—	41,217,548
Public service	190,736	24,478	—	108,160	—	323,374
Academic support	7,027,705	2,634,931	—	1,745,795	—	11,408,431
Student services	6,301,324	2,335,196	—	2,088,687	—	10,725,207
Institutional support	7,655,725	2,899,902	—	2,644,778	—	13,200,405
Operation and maintenance of plant	5,009,870	2,188,276	—	1,009,237	—	8,207,383
Student grants and scholarships	—	—	13,040,800	—	—	13,040,800
Auxiliary enterprise expenses	3,452,098	1,129,783	—	4,072,337	—	8,654,218
Depreciation	—	—	—	—	5,968,453	5,968,453
Total	\$ <u>59,200,023</u>	<u>20,178,857</u>	<u>13,040,800</u>	<u>14,357,686</u>	<u>5,968,453</u>	<u>112,745,819</u>

**(13) Transactions with Related Entities**

The System is an agency of the State of California and, as such, processes substantially all of its revenue and expenditure activity through the Office of the California State Controller. State appropriations, both noncapital and capital, allocated to the University through the Office of the Chancellor aggregated \$77,789,954 and \$119,989,930 for the years ended June 30, 2007 and 2006, respectively. State appropriations receivable aggregated \$33,913,884 and \$57,040,857 at June 30, 2007 and 2006, respectively. The University also received lottery fund distributions from the State of California in the amount of \$771,000 and \$753,000 for the years ended June 30, 2007 and 2006, respectively, which is included in other nonoperating revenues in the accompanying statements of revenues, expenses, and changes in net assets.

As headquarters for the System, the Office of the Chancellor administers certain activities centrally for the individual campuses. Primary among these activities are management of capital projects, debt administration, and risk pool administration. The costs associated with the operations of the Office of the Chancellor are not allocated to the individual universities' financial statements.

As discussed in notes 6 and 7, the University has recorded capital assets that have been financed by System or State of California obligations that are not reflected in the accompanying financial statements. For the years ended June 30, 2007 and 2006, no such additions of capital assets are included in the accompanying financial statements.

**HUMBOLDT STATE UNIVERSITY**

Notes to Financial Statements

June 30, 2007 and 2006

The accompanying financial statements also include the following transactions with discretely presented auxiliary organizations and other related parties as of and for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Reimbursements from recognized auxiliary organizations for salaries of University employees working on contracts, grants, and other programs	\$ 822,826	805,729
Reimbursements from recognized auxiliary organizations for other than salaries of University employees	1,323,482	1,523,360
Payments to recognized auxiliary organizations for services, office space rental, and programs	7,035,332	7,058,451
Gifts-in-kind to the University from recognized auxiliary organizations	142,728	29,097
Amounts receivable from the Office of the Chancellor	49,482	—
Amounts payable to the Office of the Chancellor	(19,518)	(66,800)
Amounts receivable from recognized auxiliary organizations	684,254	246,207
Amounts payable to recognized auxiliary organizations	—	(10,879)